

## 8. COMMERCE AND HOUSING CREDIT

**Table 8-1. Federal Resources in Support of Commerce and Housing Credit**

(Dollar amounts in millions)

Function 370	1993 Actual	2001 Estimate	Percent Change: 1993-2001
<b>Spending:</b>			
Discretionary budget authority .....	4,092	2,932	-28%
Mandatory outlays <sup>1</sup> .....	-25,562	2,964	NA
<b>Credit Activity:</b>			
Direct loan disbursements .....	5,012	1,670	-67%
Guaranteed loans .....	79,378	229,578	189%
<b>Tax expenditures</b> .....	160,040	254,680	59%

NA=Not applicable.

<sup>1</sup>Mandatory outlays in 1993 were offset by nearly \$28 billion in deposit insurance collections primarily from the sale of assets and insurance premiums.

During the Clinton-Gore Administration, the homeownership rate reached a record high level, increasing investment in the Nation's communities and enabling an additional nine million American families to build personal equity in a home. Facilitating homeownership is one of many ways the Government supports housing and advances commerce. The Government provides direct loans and loan guarantees to ease access to mortgage and commercial credit; sponsors private enterprises that support the secondary market for home mortgages; regulates private credit intermediaries; protects investors when insured depository institutions fail; promotes exports and technology; collects our Nation's statistics; and, offers tax incentives.

### Restoring the Public's Trust in the Department of Housing and Urban Development (HUD)

The Administration improved HUD operations through a concerted and persistent management overhaul over the past several years, aiming toward a more unified and responsive organization. Today, HUD employees have a clearer mission, one that emphasizes customer service and the achievement of results. HUD's information and financial

systems are better. The Department now has the additional tools to assess how its intermediaries are performing, set performance goals, and reward and penalize on the basis of performance. The end product is a better business organization to deliver necessary services to the Nation. As the General Accounting Office reported, "HUD continues to make credible progress in overhauling its operations to correct its management deficiencies," and it credited the HUD Management Reform Plan as "a major contributor to this progress."

### Providing Mortgage Credit

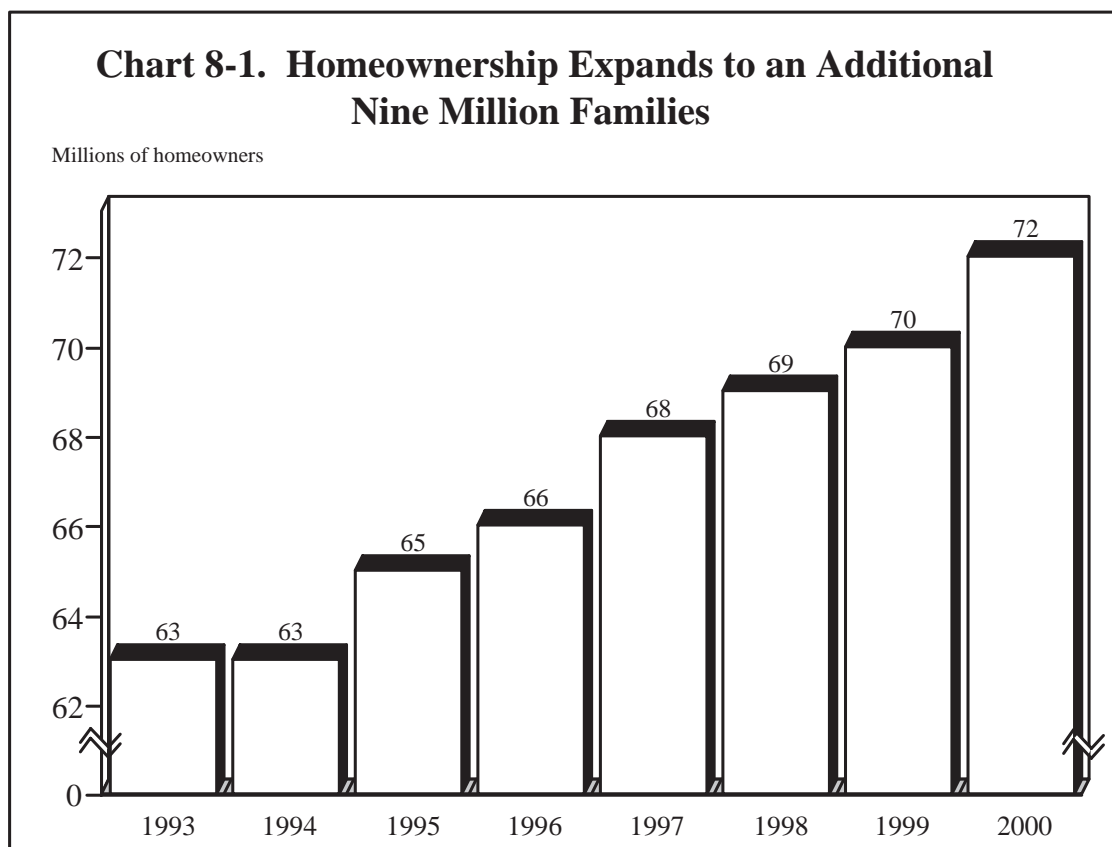
The Government provides loans and loan guarantees to increase homeownership, and to help low-income families afford suitable apartments. Housing credit programs of the Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Veterans Affairs (VA) supported \$123 billion in loan and loan guarantees in 2000, an increase of almost 10 percent from 1993. All of these programs have contributed to the success of the President's National Homeownership Initiative which, along with a strong economy, helped boost national homeownership from 63 million in 1993 to 72

million in 2000, exceeding the Administration's goal and reaching a record level (see Chart 8-1).

**HUD's Federal Housing Administration (FHA):** The Mutual Mortgage Insurance Fund, run by the FHA, helps increase access to single-family mortgage credit across the United States. In 2000, the MMI Fund insured over \$86 billion in mortgages for almost 900,000 households. During this Administration, FHA strengthened the financial health of the MMI Fund while guaranteeing more loans for borrowers and reducing the rate of property foreclosures. FHA also now serves more underserved borrowers than it did at the start of this Administration, e.g., over 80 percent of FHA borrowers who purchased their homes in 2000 are first-time homeowners, up from 67 percent in 1993, and 42 percent of FHA borrowers who purchased their homes in 2000 belong to a minority group, as compared to only 23 percent in 1993. As noted in Table 8-2, FHA also insures mortgage loans for multi-

family housing as part of its General Insurance and Special Risk Insurance Fund.

**USDA's Rural Housing Service (RHS):** RHS offers direct and guaranteed loans and grants to help very low- to moderate-income rural residents buy and maintain adequate, affordable housing. The RHS direct loan program for single family housing provides subsidized direct loans to very-low and low-income rural residents who would be unable to get credit elsewhere. The RHS guaranteed loan program for single family housing guarantees up to 90 percent of a private mortgage. During this Administration, the RHS single family housing programs together provided 500,000 rural families with decent, safe, affordable homes, significantly reducing the number of rural residents living in substandard housing. In 1993, RHS financed approximately 42,000 home loans, and in 2001 it expects to provide 57,000 loans, a 36-percent increase.



During this period, RHS also significantly improved its customer service to its 650,000 housing borrowers, as well as its financial accountability by centralizing the servicing of its single family housing direct loan portfolio. Through this effort, RHS established an escrow system; reduced operating costs, loan losses, foreclosures and delinquency rates; and, brought RHS accounting more in line with the commercial sector. These new efficiencies enabled RHS to provide more subsidized loans with no additional budget authority. Since 1993, the RHS single family housing programs provided almost \$30 billion in direct loans and loan guarantees.

**Veterans' Affairs (VA):** VA recognizes the service that veterans and active duty personnel provide to the Nation by helping them buy and retain homes. The Government partially guarantees loans from private lenders, providing \$20 billion in loan guarantees in 2000. One of VA's key goals has been to improve loan servicing to avoid veteran foreclosures. Over the past several years, VA has

decreased foreclosures by approximately 10 percent.

**Ginnie Mae:** The Congress created Ginnie Mae in 1968 to support the secondary market for FHA, VA, and RHS mortgages through securitization. Ginnie Mae securitizes the majority of FHA, VA, and RHS mortgages, and together with the Government-sponsored enterprises that operate in the secondary market for mortgages, provides lenders with the liquidity to maintain a steady supply of credit available for housing.

### Expanding Access to Decent Housing

The Federal Government provides rental housing assistance through a number of HUD and USDA programs. (Spending on housing assistance is included in Chapter 14, "Income Security.") These rental assistance programs provide subsidies for 4.9 million low-income households.

HUD expanded rental assistance to help more than 250,000 low-income families from 1993 through 2001. The number of families

**Table 8-2. Selected Federal Commerce and Housing Credit Programs:  
Credit Programs Portfolio Characteristics**

(Dollar amounts in millions)

	Dollar volume of direct loans/ guarantees written in 2000	Numbers of housing units/ small business financed by loans/guaran- tees written in 2000	Dollar volume of total out- standing loans/guaran- tees as of the end of 2000
<b>Mortgage Credit:</b>			
HUD/FHA Mutual Mortgage Insurance Fund ...	86,274	873,265	449,579
HUD/FHA General Insurance and Special Risk Insurance Fund .....	12,506	154,492	98,888
USDA/RHS single-family loans .....	3,324	51,400	27,697
USDA/RHS multi-family loans .....	246	7,400	11,397
VA guaranteed loans .....	20,159	175,559	199,759
Subtotal, Mortgage Credit .....	122,509	1,262,116	787,320
<b>Business Credit:</b>			
SBA Guaranteed Loans .....	13,195	48,422	45,556
SBA Direct Loans .....	27	65	65
Subtotal, SBA Loans .....	13,222	48,487	45,621
<b>Total Assistance .....</b>	<b>135,731</b>	<b>1,310,603</b>	<b>832,941</b>

with severe housing needs has remained roughly the same from 1993 to 1999, exceeding five million households throughout the period.

This Administration proposed historic reforms in the public housing and Section 8 rental assistance programs. With bipartisan support, the Congress enacted the bulk of these reforms in the Quality Housing and Work Responsibility Act of 1998, the first significant housing bill passed in several years. The Act promotes income mixing in public housing, which reduces concentrations of poverty; gives local public housing authorities the flexibility to adopt admissions and rent policies that do not penalize working families; and, raises management performance standards for assisted-housing providers.

The Act also reforms HUD's housing voucher program to target more aid to those most in need; provides local public housing authorities with the flexibility to respond to local price changes in the rental market; expands owner participation in the program by adopting private market real estate practices; and finally, permits the use of vouchers for home purchase. Actions also were taken to make it easier for families to use vouchers in tight rental markets and to protect assisted tenants from rent increases by providing additional subsidies where necessary.

As part of its commitment to assure that all public housing residents live in decent, safe, and sanitary conditions, the Administration worked to demolish deteriorating, non-viable public housing units and replace them with either new, less-dense, mixed-income public housing or housing vouchers. In total, the Administration demolished nearly 60,000 public housing units and has funded the future demolition of 50,000 more. The President also established the One Strike and You're Out policy in 1996 to create safer assisted-housing communities. The policy gives public housing agencies the authority to screen and evict residents who are involved in drugs and drug-related crime.

USDA's RHS ensured that over the last eight years, 273,600 poor families were able to continue renting decent, safe affordable housing in areas that otherwise offer few rental housing opportunities. RHS provides direct loans to private developers for the

construction and rehabilitation of rental housing for very low- to low-income residents, elderly households, and disabled individuals. RHS combines these loans with Rental Assistance Grants to reduce the rent paid by very-low income tenants. In 1996, RHS also began a rural multifamily housing guarantee loan program.

The Administration also provided housing assistance and supportive services for the very low-income elderly and disabled to help them live as independently as possible, including the conversion of existing elderly housing to assisted living facilities. Since 1993, HUD added approximately 75,000 units to the elderly and disabled housing stock.

### **Providing Housing Tax Incentives**

The Government provides significant support for housing through tax preferences. The two largest tax benefits are the mortgage interest deduction for owner-occupied homes and the deductibility of State and local property tax on owner-occupied homes (which collectively will cost the Government \$87 billion in 2001, a 41-percent increase since 1993). Other tax provisions also encourage investment in housing. States and localities can issue tax-exempt mortgage revenue bonds, whose proceeds subsidize purchases by first-time, low- and moderate-income home buyers. Also, installment sales provisions let some real estate sellers defer taxes. Finally, the low-income housing tax credit supports the construction or renovation of 60,000 to 90,000 units of affordable rental housing annually. The use of this tax credit increased by 114 percent since 1993.

The Community Renewal Act of 2000 increased the amount of low-income housing tax credits that may be allotted by State housing agencies to qualifying projects. The Taxpayer Relief Act of 1997 provided a new exclusion for capital gains on principal residences that substantially simplifies the tax treatment of houses for most taxpayers. Under the provision, taxpayers can exclude up to \$250,000 of capital gain on principal residences (\$500,000 for married taxpayers filing jointly).

## **Promoting Commerce, Technology, and International Trade**

### ***Technology and Intellectual Property***

**Rights:** The Department of Commerce undertakes a range of activities to promote technological innovation. In 1999, the Nation's intellectual property rights system was strengthened with the passage of the landmark American Inventors Protection Act, which reformed patent law and converted Commerce's Patent and Trademark Office (PTO) into a performance-based organization to better serve America's entrepreneurs and innovators. PTO also protects U.S. intellectual property rights around the world through international treaties.

Despite record growth in applications, PTO has maintained its average processing time for both patent and trademark applications. In 2001, PTO will issue over 165,509 patents, a 54-percent increase since 1993. Also in 2001, PTO will register 211,500 trademarks, a 185-percent increase since 1993.

**Commerce's National Institute of Standards and Technology (NIST):** NIST works with industry to develop measurements, standards, and technology to promote American competitiveness. NIST also assists industry through the Advanced Technology Program (ATP) and the Manufacturing Extension Partnership (MEP). Since 1993, NIST has expanded its research into new fields such as nanotechnology and e-commerce. MEP, which disseminates technological information and expertise to smaller manufacturers, achieved nationwide coverage in 1997. Today MEP operates 400 assistance centers in all fifty States plus Puerto Rico. ATP, a public/private partnership, has administered approximately \$1.5 billion in Federal matching funds for 468 projects since its inception.

In 2001, NIST laboratories will produce over 2,200 technical publications, a three-percent increase since 1993. MEP will serve more than 33,600 clients in 2001, 7,600 more than in 1997. In that same time, MEP assistance will have increased clients' sales by \$748 million and generated \$607 million in additional capital investment. ATP will fund the research and development of 200 new technologies in 2001, a dramatic increase over the four studied in 1993.

**Commerce's International Trade Administration (ITA):** Since 1993, ITA has greatly expanded its outreach to small and medium sized firms to develop their export potential. In 2000, ITA serviced over 137,000 small to medium sized businesses, almost double the 1993 level. ITA also supported trade negotiation, market-access, and trade-enforcement activities that greatly benefit the Nation's economy.

**Commerce's Bureau of Export Administration (BXA):** BXA is a regulatory agency that enforces U.S. export controls. In 2001, BXA will issue 14,000 licenses for dual-use commodities (military or civilian use), 5,200 more than in 1996.

Under the Chemical Weapons Convention (CWC) implementing legislation, BXA leads international inspections of U.S. chemical production sites and regulates the export of key toxic and precursor chemicals. Regulations for CWC inspections were finalized in May 2000, ensuring U.S. compliance with CWC while protecting the proprietary commercial information of U.S. industry.

**Commerce's Census Bureau and Bureau of Economic Analysis (BEA):** The Census Bureau collects, tabulates, and distributes a wide variety of statistical information about Americans and the economy, including the decennial census. In addition, BEA prepares and interprets U.S. economic accounts, including the Gross Domestic Product. BEA and the Census Bureau are also leading Government efforts to monitor and analyze the impacts of the new Digital Economy.

Since 1993, the Census Bureau has completed a wide array of demographic and economic surveys and censuses, including the constitutionally-mandated decennial census of population, which is used for apportioning seats in the House of Representatives across States, redistricting within States, and the distribution of nearly \$200 billion in Federal funds to States and localities. During Census 2000, the Census Bureau mailed or hand delivered census forms to 120 million households nationwide. Non-response follow-up interviews were also conducted with approximately 42 million households. This year, the 67-percent mail response rate improved over the 65-percent response rate for the

1990 Census, arresting a decades-long decline in mail response. The Census Bureau also completed, on schedule and ahead of the 1990 Census pace, the collection of data from the remaining households that did not respond by mail (33 percent). While the Census Bureau must await the results of the Accuracy and Coverage Evaluation survey to determine the ultimate accuracy and completeness of Census 2000, the Census Bureau is classifying Census 2000 as an operational success.

***Small Business Administration (SBA):*** SBA assists and promotes small business by expanding access to capital through guaranteed private sector loans. SBA guaranteed over \$14.5 billion in small business loans in 2000. SBA loans carry longer terms and lower interest rates than those for which small businesses would otherwise qualify. Between 1993 and 2000, SBA guaranteed \$80.6 billion in loans compared to the \$78.0 billion in loans guaranteed between 1953 and 1992. SBA also provides technical assistance and venture capital.

A key component of the Administration's economic development strategy over the past eight years has been to increase access to capital and credit for women- and minority-owned firms. Between 1993 and 2000, SBA provided \$12 billion in loans to women, which is more than double the \$5.7 billion provided in the previous nineteen years between 1973 and 1992. Likewise, SBA provided \$18.4 billion in loans to minorities between 1993 and 2000, which is more than double the \$7.9 billion provided between 1953 and 1992. Further, Federal contract awards to minority-owned firms increased to \$6.2 billion in 1999 from \$3.4 billion in 1990.

Complementing SBA's loan programs are technical assistance programs, which increase the borrower's probability of success. For instance, to date, SBA has not experienced any defaults on its direct microloan program, which has a substantial technical assistance component. This suggests that technical assistance has had a positive impact. The Administration also increased the number of small businesses receiving counseling and training to 1.15 million in 2000 from 900,000 in 1993. Outreach efforts are expected to reach 1.2 million small businesses in 2001.

The New Markets initiative, enacted in December 2000, is the Administration's most recent effort to foster private-sector investment in rural and inner-city communities. New Markets Venture Capital, New Markets Technical Assistance, and the BusinessLINC programs provide \$250 million in public and private capital, plus technical assistance to increase entrepreneurial success and mentoring opportunities for aspiring small businesses.

***Federal Trade Commission (FTC):*** The FTC enforces various consumer protection and antitrust laws that prohibit fraud, deception, anti-competitive mergers, and other unfair and anti-competitive business practices in the marketplace. Since 1992, the FTC has obtained judgments for over \$800 million in consumer redress and established a consumer complaint database that is shared with more than 270 law enforcement partners. The FTC continues to protect the marketplace by successfully monitoring a record number of corporate merger transactions that have tripled in volume over the last eight years. Congress recently enacted Administration-proposed legislation that will make the merger-review process more equitable by establishing a new three-tiered fee structure that increases the bottom filing threshold.

***Federal Communications Commission (FCC):*** As the introduction of wireless, Internet-based and new communication technologies continues to grow, the FCC has focused on market-based solutions in a deregulatory environment. The FCC's market-based auctions program has been a driving force in promoting efficient use of the spectrum and recovering a fair return to the general public for this resource, including over \$20 billion in actual and estimated cash receipts through 2001. The auctions program also fostered a four-fold increase in the number of wireless phone subscribers and enabled a 40-percent drop in wireless phone bills. Over the past four years, local telephone service competition increased significantly in large part due to the FCC's aggressive implementation of the Telecommunications Act of 1996. Over the past three years, the FCC fully funded the E-rate program to wire 82 percent of public schools and 51 percent of public libraries to the Internet. The FCC also expanded services to those in

underserved communities, including Native Americans and the 54 million Americans with disabilities.

### **Providing Tax Incentives for Commerce**

The tax law provides incentives to encourage business investment. The Government taxes capital gains at a lower rate than other income. The tax law provides more generous depreciation allowances for machinery, equipment, and buildings. This business incentive will cost the Government \$33 billion in 2001, a 68-percent increase since 1993. Other tax provisions benefit small firms generally, including the graduated corporate income tax rates, preferential capital gains tax treatment for small corporation stock, and write-offs of certain investments. Credit unions, small insurance companies, and insurance companies owned by certain tax-exempt organizations also enjoy tax preferences.

The Taxpayer Relief Act of 1997 significantly changed the tax treatment and lowered tax rates for long-term capital gains. Also, during the last four years, several capital gains provisions were enacted to limit certain perceived abuses related to capital gains taxes. The capital gains tax incentive cost the Government \$6 billion in 1993, but it will cost the Government almost \$42 billion in 2001. In addition, the law does not tax gains on inherited capital assets that accrue during the lifetime of the original owner. Tax law changes during this Administration also provided an increase in expensing for small businesses, and an increase in the top corporate tax rate.

### **Regulating Financial Institutions and Markets**

***Federal Deposit Insurance:*** Federal deposit insurance protects depositors against

losses when insured commercial banks, thrifts (savings institutions), and credit unions fail. From 1985 to 1995, this insurance protected depositors in over 1,400 failed banks and 1,100 failed thrifts, with total deposits of over \$700 billion. As of June 2000, the Bank Insurance Fund, the Savings Association Insurance Fund, and the Credit Union Share Insurance Fund insured total deposits of more than \$3.3 trillion. Five agencies regulate federally-insured depository institutions to ensure their safety and soundness: the Office of the Comptroller of the Currency regulates national banks; the Office of Thrift Supervision regulates thrifts; the Federal Reserve regulates State-chartered banks that are Federal Reserve members; the Federal Deposit Insurance Corporation regulates other State-chartered banks; and, the National Credit Union Administration regulates credit unions.

***Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC):*** The SEC regulates U.S. capital markets and the securities industry and facilitates capital formation. The CFTC regulates U.S. futures and options markets. Both regulators have protected investors during a period of unprecedented growth in our Nation's financial markets. Between calendar years 1990 and 1999, trading volume on stock exchanges and NASDAQ increased by nearly five times, and dollar volume increased by more than nine times. Additionally, an increasing number of Americans now participate in the Nation's financial markets. For example, the number of households that own mutual funds has increased by 60 percent since 1994. Today, nearly half of all households own mutual funds.